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C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 002459

SIPDIS

STATE FOR E, EB/CBED, EB/ESC, EUR/SE
STATE PASS NSC FOR QUANRUD AND BRYZA
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E.O. 12958: DECL: 04/15/2013
TAGS: [ENRG](#) [ECON](#) [EPET](#) [AJ](#) [GG](#) [KZ](#) [TU](#)
SUBJECT: BTC OPERATIONAL ISSUES: PROGRESS, BUT CHALLENGES
REMAIN

REF: A) ANKARA 2165 B) ANKARA 1724 C) ANKARA 1448

Classified by EconCouns Scot Marciel, Reason 1.5 (b,d)

[11.](#) (C) Summary: The GOT has made progress on outstanding BTC operational issues since BTC Co sent a "material breach" letter to Energy Minister Guler on April 7. Guler has named a new manager for the BTC Directorate, and has committed to increasing the project manager's authority. These developments are promising, but we will continue to monitor the situation closely to ensure that these initial steps lead to resolution of the outstanding problems, which could seriously jeopardize BTC if left unchecked. We will meet with GOT officials over the next several days to reiterate our concerns, and ascertain the GOT's action plan for resolving all remaining issues. End summary.

Progress on BTC Co's Key Concerns

[12.](#) (C) BP's Turkey BTC Co General Manager, Yashar Latifov, told econoff April 15 that important progress has been made since BTC Co sent a "material breach" letter to Energy Minister Guler on April 7. The letter, signed by BTC Co CEO Michael Townshend, advises the Minister that the GOT is in "material breach of its obligations under the Host Government Agreement, and, therefore, under the Intergovernmental Agreement," due to improper management of the Turkish segment of BTC. Townshend requests that the Minister 1) give BOTAS the necessary authority to manage the project; and 2) appoint a qualified director of the BTC Directorate, BOTAS' BTC subsidiary.

[13.](#) (C) Energy Minister Guler confirmed to Latifov on April 15 that progress had been made on both of these requests. First, the Minister said, he had designated Fatih Ocali to replace the current general manager of the BTC Directorate. Latifov told econoff that Ocali was acceptable to BTC Co -- he had the right credentials (10 years as BOTAS Deputy General Manager, from 1985-1995) and was close to Minister Guler. Minister Guler also said he was working to ensure that Ocali would have sufficient authority to implement the BTC turnkey contract, but was still figuring out the legal/administrative means of achieving this. Guler told Latifov not to worry, "this is a one-party government and we will get done what we need to get done." The BOTAS Board is scheduled to approve the appointment of Ocali at its next meeting on April 17.

[14.](#) (C) MFA officials told econoff that they shared many of the concerns relayed in the "material breach" letter, and they had briefed FM Gul to that effect. They noted that the project already had experienced some delays due to BOTAS' limited authority, but the situation had been exacerbated with the dismissals of BOTAS GM Bildaci and Energy U/S Yigitguden. MFA officials said U.S. concern about this issue had definitely been registered -- the MFA had reported the contents of E/CBED Ambassador Mann's letter to Minister Guler to the Prime Ministry and to the Presidency. On the positive side, these officials said, the BTC Co and Mann letters had caused senior officials to focus on the problem and how to resolve it.

[15.](#) (C) In addition to the steps mentioned above, other recent developments may also contribute to resolution of the outstanding BTC operational problems. Over the last week:

-- The GOT named Sami Demirbilek as the new Energy Undersecretary, replacing Yurdakul Yigitguden;

-- Minister Guler appointed one of his personal advisors, Mehmet Calil, to act as "BTC Coordinator;"

-- The Foreign Minister reportedly convened a meeting to discuss an action plan for addressing the outstanding problems.

Meet the Press

16. (C) The Turkish daily Radikal reported April 13 that BTC Co had sent Minister Guler a letter, but got most of the other facts wrong. For example, the article claims that BTC Co notified the GOT that the project was three months behind schedule, and had instructed the Minister to stop making political appointments to BOTAS. Latifov spent most of April 14 doing press interviews to respond to the inaccuracies of the Radikal article, with positive results: many of the Turkish dailies on April 15 quoted an unnamed BTC Co official as stating that BTC construction was not significantly delayed in Turkey, and none of the existing problems were insurmountable.

17. (C) In connection with the BTC Co letter story, at least two Turkish dailies have reported that the U.S. no longer supports the BTC project since it will soon have access to cheap Iraqi oil. We are responding to these articles, reiterating U.S. support for Caspian energy development and successful completion of the BTC pipeline.

Comment

18. (C) BTC Co's "material breach" letter, followed by E/CBED Amb. Mann's letter, seems to have spurred the Turks into action. Guler's commitments to BTC Co are promising, but he must now translate his words into results. We will continue to monitor the situation closely to ensure that these initial steps lead to resolution of the outstanding problems, which could seriously jeopardize BTC if left unchecked. The GOT is clearly aware of U.S. interest on this issue, but we will meet with the new Energy U/S and the Prime Minister's Chief Advisor over the next several days to reiterate our concerns, and ascertain the GOT's action plan for resolving the outstanding issues.
PEARSON